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SUBJECT: CHAD OIL PROJECT: 6 YEARS AND 6 BILLION DOLLARS LATER

1.(SBU) SUMMARY: Six years and six billion dollars later, the Chad oil project boasts an impressive list of accomplishments, despite operating in one of the world's least developed and most isolated countries. Employing over 5,000 Chadians and purchasing some $143 million annually in local goods, the project alone is the major economic actor in Chad. While Chad's oil receipts have skyrocketed due to high international oil prices, the Esso-led oil consortium has had to invest in new wells to offset lower than expected production. This has added to land pressure in a region already experiencing high land use. Successful by conventional measures, the project still runs the risk of being viewed unfavorably by Chadians due to pressures for uncontrolled government spending on security (financed by oil income), the slow trickle down of oil wealth and discomfort by local communities at the size of the consortium's footprint. End Summary.

INTRODUCTION

¶2. (SBU) Slightly over six years from the official start date, and after six billion dollars worth of investment, the Chad/Cameroon oil pipeline is one of the most closely studied projects in "responsible" oil management in Africa. This cable examines the current status of the Chad oil project based on Esso's own reporting, reporting from monitoring bodies created for the project, and discussions with NGOs, the business community and consortium executives. (Note: this report focuses on the Chad-based oil-field project rather than the totality of the Chad/Cameroon pipeline. End note)

NEW WELLS AND ADVANCED TECHNOLOGY TO OFFSET LOWER OUTPUT
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¶3. (U) Since operations officially started in October 2000, the Chad oil consortium, composed of ExxonMobil,

Chevron and Petronas has opened 369 production wells in Chad. Twenty more wells are scheduled to come on line in 2007. The daily output of 155,000 barrels is less than anticipated, and the pipeline is running at about 40% capacity. In meetings with Emboffs, company executives have stressed that, in order to maintain the flow of oil at the current rate, the project must continue to add production wells and improve existing oil well productivity. Exploration continues in Mangara (a hard four hour drive from Kome base camp) where Esso has set up a complete remote drilling camp.

¶4. (U) Chad is believed to have reserves of 1.5 billion barrels (according to Oil and Gas Journal), but experience to date has shown that extraction is challenging; consortium executives caution that much of those reserves may not be recoverable. In fact, underground water and Chad's topography have created some unique technical difficulties for Esso: in 2006 Esso installed high pressure water injection systems to push water deeper underground into the oil deposits. By 2007, what was originally a $4 billion investment had ballooned to $6 billion as a result of the need to add new wells and modify existing wells.

¶5. (U) Despite the lower than expected output, Chad's oil revenues for 2006 skyrocketed. This was due in part to the higher price of oil but also a function of the government's strong-arming consortium partners Chevron and Petronas on alleged taxes owed. Esso's end of year report shows that Chad's receipts (royalties, pipeline income, taxes and fees, permits and duties) jumped from $299 million in 2005 to $777.4

million in 2006. Chad's overall revenue since project start-up is $1.289 billion, according to Esso figures.

IMPACT ON LOCAL COMMUNITIES

¶6. (U) The most recent report of the International Consultative Group (French acronym GIC) - one of a number of monitoring mechanisms set up by the World Bank - gave the Chad oil project reasonably good marks in 2006 for work on mitigating environmental risks and assisting local communities. By contrast, the report was critical of the Government of Chad's monitoring mechanisms and the management of the 5% of royalty revenues for the oil-producing region. The GIC report noted a "degradation of cohabitation" between the local communities and the consortium where the former's sense of encroachment by the oil "footprint" is not offset sufficiently by an improvement in quality of life.

OIL SPILLS, FLARING AND ROAD DUST

¶7. (U) Environmental concerns surrounding the project have focused on the possibility of oil spills, on the health impact of dust from trucks on non-paved roads, and on gas flares. Esso's annual report indicates that nine small spills took place in 2006. Ranging in size from less than a liter to 40 barrels, the spills were considered insignificant. In 2006, to the discomfort of the local population, the Consortium launched a $25 million flare reduction program in response to unexpectedly large volumes of gas from the new Moundouli oilfield. Esso claims that the flare is 40 - 80% less than other facilities that operate in similar production areas. The GIC recommendations urged Esso to continue to seek to reduce the flare, and to develop a communications strategy with communities to alleviate concerns about the health impact of the flare. Responding to widespread complaints from local residents concerning the dust kicked up by heavy

traffic on the non-asphalted roads, the consortium agreed to pave 14 additional kilometers of oilfield road area (on top of the 9.5 k. paved in 2006). Other roads continue to be treated with water or industrial molasses to reduce dust.

LAND COMPENSATION AND LAND PRESSURES

¶8. (U) Total individual land-use compensation paid by the consortium over the last year totaled more than $1.1 million in cash and in-kind payments. (As only the state owns land, farmers are compensated for lost crop opportunities.) In all, more than $8 million has been paid out in land compensation to 4,000 land users for 2,900 hectares of land since project inception in ¶2000.

¶9. (U) The consortium has required more land than originally anticipated, both for new oil wells as well as for electrical lines and other facilities, which has presented a growing challenge in an area already experiencing land pressure. By their own admission, the consortium fell behind in reclaiming land (once the temporary construction phase was over) and formally returning it to the villages. Recovering from this backlog was a major focus of work in 2006 and will continue in 2007 with the hopes of clearing the backlog of 654 hectares. The GIC commented favorably on the acceleration in land restoration and restitution program and on Esso's decision in 2006 to change the size of the oil well pad size (thus encroaching less on village land).

SHORT TERM GAINS BY COMMUNITIES; LONGER TERM PROSPECTS IN DOUBT
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¶10. (U) The GIC report noted a "degradation of cohabitation" between the local communities and the consortium. A land use study commissioned by the c0onsortium determined that affected villages and households were "materially and significantly better off." However, the study also pointed out that the benefits would fade over time, and that in the long run the villages needed to acquire new land to allow for crop rotation and fallow field. They noted, however, that traditional land-use acquisition mechanisms were not working. In response, Esso has embarked on a project for long-term land replacement in conjunction with experts and stakeholders in order to help increase the supply of farm land in the oil-field area. In addition, a supplemental program funded at $1 million will compensate for loss of communal land.

SECURITY AND SHAKEDOWNS

¶11. (U) The GIC 2006 report remarked on the number of spontaneous complaints of abusive and corrupt gendarmes voiced by local communities, and underscored that one of the foremost preoccupations in the region was insecurity. They also heard objections to what the population perceived as an Esso-imposed 6 pm curfew to fight against theft. Esso itself has reported serious losses from pilferage and theft at rigs and has brought in former Chadian state security officials to advise them on strategies for reducing losses, but state that they have never called for a curfew. The GIC also noted that the government had removed some local authorities in response to the infamous 10% which local chiefs were levying on individual compensation. Nonetheless, the GIC reported the 10% continued to be demanded in some areas.

LABOR, TAXES AND REGULATION

¶12. (SBU) Post has reported extensively on the consortium's frequent run-ins with Chad's labor unions and tax and regulatory authorities. The most high-profile case involved alleged underpayment to pipeline workers for overtime. Esso eventually accepted the judgment handed down by Chad's highest judicial body, and some $12.5 million in back payments were made to former workers starting in late 2006. Less dramatic, (but much regretted by temporarily omelette-less workers) was a 2006 incident where Chadian authorities, acting on very unsound science, insisted on burning a shipping container's worth of eggs imported from the United States (broken, separated, packed in dry ice) because of Avian Influenza concerns. Esso recognizes that - particularly as the price of oil rises - they are considered a prime "cash cow" by Chadians in a country sorely lacking other inflows. Like other companies in the formal sector in Chad, they face a plethora of labor related law-suits and a fine-tooth scrutiny by tax officials which they feel is driven more by the government's financial situation on any given day (or by individual greed) than by anything else.

LOCAL BUSINESS CREATION AND EMPLOYMENT

¶13. (U) Wage payments to the 5,413 Chadian employees workers totaled over $16 million in 2006. Of these employees, 176 were in "supervisory" positions; most

were in skilled or semi-skilled work. Purchase of local goods and services in 2006 totaled $143.1 million. Examples of local business creation include a new waste management business linking Chadian and Cameroonian companies. These sums notwithstanding, an oft-heard complaint from the Chadian businesses community is that Esso does not buy locally. In response to these complaints, Esso has organized meetings with the Chamber of Commerce to discuss upcoming business opportunities.

CHAD MONITORING

¶14. (U) The GIC found that the National Technical Committee for Monitoring and Control and the Petrol Office at Doba (French acronym UPD) were non-operational due to lack of staffing and non-payment of salaries. The report urges the government not to wait for possible World Bank support to these units, but to immediately provide the necessary financing. They warned that the state of the institutions rendered the GOC incapable of monitoring its own interests and those of the local populations. Other non-functioning Chadian institutions highlighted by the GIC were a micro-credit program, the stalled regional development plan, and problems plaguing management of the 5% destined for the oil producing region from the oil royalties. The GIC reported that the "5% projects" had limited impact, favored urban rather than rural populations, and had been chosen by President Deby himself rather than by a participatory process involving local populations.

COMMENT

¶15. (SBU) The consortium has changed Chad's political and economic landscape in many ways, by and large for the better, providing job opportunities, income and a demonstration of ways of doing business that are far

from the Chadian experience. However, avoiding a "Niger Delta" scenario requires both the consortium and the Government of Chad to play their roles in ensuring - respectively - good management of the project and good management of oil revenues. The project puts the Government of Chad and the consortium under the microscope; Esso has been in a better position from the start to understand the implications of failing to project good corporate citizenship and has had the means to do so; the GOC, by contrast is sorely lacking in the human resources, the institutions, and most critically, the political will to fully play its role.
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